

Alaska Marine Highway System

Office Relocation to Ketchikan

Discussion Paper

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DISCUSSION PAPER

AMHS Office Relocation

ISSUE

Alaska Marine Highway System (AMHS) is considering a proposal to relocate fleet management and engineering personnel from Juneau to Ketchikan. The group in question is all AMHS Juneau Central Office (JCO) staff occupying 6,216 sq. ft of the 2nd floor of the Alaska Department of Transportation and Public Facilities (DOT&PF) Headquarters building at Juneau 3 Mile. This group consists of 34 management and professional positions. Approximately 10 clerical positions are not being considered for the move; these positions would be filled from the Ketchikan workforce. The Reservations staff at Juneau 7 Mile will also remain in Juneau along with Planning, Finance, Human Resources, Procurement and others who are part of the DOT&PF Southeast Region group.

The question has been asked:

Is there merit in relocating AMHS fleet management and engineering staff to Ketchikan?

BACKGROUND

The concept of designating Ketchikan as the primary management and service hub for AMHS fleet operations and maintenance has been an issue for years. But, for various reasons, no progress has been made on this matter.

In 1982, when Ketchikan was selected for the site of a State-owned shipyard facility, the original design envisioned substantial AMHS infrastructure and associated personnel would be located in Ketchikan to support ship repair and routine fleet operations.¹

In 1989, Acres International Corporation conducted a management study (Acres Report) focusing primarily on AMHS fleet maintenance issues. From this study arose an assertion that AMHS managers were "out of touch" with the issues and needs of the fleet. On that basis, the Acres Report concluded that organizational and procedural changes were required within AMHS before a more efficient fleet maintenance management system could be effectively introduced.

In 1990, a long-range development plan² for the State-owned shipyard in Ketchikan was approved. This plan envisioned the construction of a multi-use "marine industrial mall." The plan was to consolidate Ketchikan's extensive marine trades under one roof, providing a full-service marine industry hub. In addition, this industrial mall building was planned to provide office space for various stakeholders, including the AMHS.

¹ Century / Quadra, Ketchikan Vessel Maintenance Facility, Phase 1 – Site Planning Report

² Ketchikan Shipyard Long Term Development Plan 1990

In 1992, a Ketchikan Shipyard Compound Building Space Study was conducted. The primary purpose of the study was to consider several alternative schemes for future development and organization of the shipyard compound. One question was how to centralize key AMHS vessel maintenance and management functions in Ketchikan (which would foster the connection urged in the Acres Report). Also, it would achieve some of the centralization envisioned in the 1990 State shipyard development plan. Although a KVMF³ building did appear on AMHS's major capital projects list in 1992,⁴ no significant outcome came from this study.

During the 1997 legislative session, legislation was introduced proposing to move the AMHS administrative offices from Juneau to Ketchikan.⁵ During associated hearings, issues related to the Acres Report were raised. It was stated that, "ship systems and operations cannot function in isolation from the shore... there must therefore be effective dialogue between the two." It was further noted that, "[i]n the decade since the Acres Report, little has happened to end the isolation between ship and shore and many believe the situation described 10 years ago is worse today."

During the same 1997 hearings, testimony was taken from respected AMHS employees including Captain Jan Sande, Captain Erv Hagerup and Robert Glenn. Each of these individuals supported the proposal to move the AMHS headquarters to Ketchikan because communications between the shore and ships would be enhanced. One of these individuals noted that other key AMHS facilities were already located in Ketchikan, so that it would be logical for certain AMHS headquarters functions to also be located there.

During this same 1997 time period, the AMHS preemptively called for an economic analysis of relocating AMHS administrative office to Ketchikan. The study asserted that there was no Ketchikan facility able to fulfill AMHS requirements for office and warehouse space.⁶ In addition, the study advanced a laundry list of reasons why the move did not make financial sense.

Ultimately, the 1997 proposal to move AMHS headquarters to Ketchikan came to naught. Instead, the AMHS was absorbed into the Southeast Region of the DOT&PF. AMHS personnel previously located at the old Glacier Highway offices (downtown) were divided and moved to DOT&PF headquarters at 3 mile and the Southeast Region offices at 7 mile.⁷ If anything, these moves further isolated AMHS management from the fleet and exacerbated the communications issue that the proposal to move personnel to Ketchikan intended to address.

³ Ketchikan Vessel Maintenance Facility

⁴ 1992 Shore Facilities Condition Survey Report (DOT&PF Marine Facilities Engineering)

⁵ Senate Bill 27

⁶ In 1997, AMHS's need was estimated at 19,700 sf for office space and 5,000 sf for warehouse space. Information Insights / AMHS Move Analysis, p. 11

⁷ Circa 1997

In 2003, under Governor Murkowski's Executive Order 204/206, the AMHS was brought out from under the Southeast Region and placed under the management of a Deputy Commissioner of Transportation (AMHS System Director).

In a significant turn of events, the Ketchikan Gateway Borough (KGB) has come into possession of the former Alaska Pulp Company facilities at Ward Cove (KGB Facility) and has recently offered AMHS use of the KGB Facility administration building on that site at substantial savings.

In light of these developments, the State of Alaska is now evaluating the long-term desirability of moving AMHS fleet management and engineering functions (fleet management) from Juneau to Ketchikan and leasing the space being offered by KGB (at Ward Cove).

DISCUSSION

General

Because AMHS relied primarily on data in 1997 study authored by Information Insights of Fairbanks, it is an appropriate basis for comparison and contrast for today's discussion of the proposed move. As discussed with detail below, virtually every impact cited as a potential negative in the 1997 analysis has been either eliminated or significantly mitigated under the current proposal.

Total Space Requirements

Unlike the space requirements assumed in the 1997 analysis (19,700 square feet), the move currently under consideration entails moving to Ketchikan only those AMHS office personnel currently located on the 2nd floor of DOT&PF headquarters at 3 Mile in Juneau.⁸ These personnel and staff occupy 6,216 square feet.

KGB is offering the AMHS a minimum of 6,216 square feet of exclusive space plus an additional 1,100 square feet of common (shared) areas.⁹ There is also ample additional space for expansion if required.

⇒ In comparison to the 1997 study findings, today's space requirements of AMHS are significantly reduced.

Office Space Availability

Since the 1997 report, there has been a significant change in the availability of suitable Ketchikan office space. The vacancy of the KGB Facility (at Ward Cove) has altered the landscape in a manner that is strategically and economically beneficial to the State of Alaska should AMHS move its fleet management offices to Ketchikan.

⁸ Consisting of 34 management and professional positions.

⁹ Common areas consist of entry lobbies, a hall and additional restrooms.

⇒ In comparison to the 1997 study findings, suitable office space now exists in Ketchikan.

Lease Costs

KGB is offering the State the space described above at a rate of \$1.60 / square foot. Additionally, a moving / incentive stipend of \$420,000 is also being offered. The moving / incentive stipend is to be taken over several years in the form of a reduced lease rate as follows:

Table 1. Depicting KGB Lease Costs for 6,216 sf

Year	Mn Rate / sf	Mn Payment	Annual Payment	Incentive
1	\$.50 / sf	\$3,108	\$ 37,296	\$ 82,051
2	\$.50 / sf	\$3,108	\$ 37,296	\$ 82,051
3	\$1.05 / sf	\$6,527	\$ 78,322	\$ 41,026
4	\$1.05 / sf	\$6,527	\$ 78,322	\$ 41,026
5	\$1.05 / sf	\$6,527	\$ 78,322	\$ 41,026
6*	\$1.05 / sf	\$6,527	\$ 78,322	\$ 41,026
7	\$1.05 / sf	\$6,527	\$ 78,322	\$ 41,026
8	\$1.05 / sf	\$6,527	\$ 78,322	\$ 41,026
9	\$1.47 / sf	\$9,134	\$109,603	\$ 9,744
10	\$1.60 / sf	\$9,946	\$119,347	\$ 0
TOTAL**			\$773,472***	\$420,000

* Note: At the beginning of year 6 the Lessor is allowed a CPI adjustment on variable costs.

** Note: The total does not reflect any CPI adjustment.

*** Note: This total reflects rounding.

⇒ In comparison to the 1997 study findings, the per-square foot lease rate for suitable office space is significantly lower than previously estimated.

Lease Features

KGB is including the following items in its quoted lease rate:

- Maintain premises in good repair
- Indemnification of the State
- Utilities (heating, cooling, electricity, water, trash removal and sewage disposal)
- Restrooms
- Roof repairs
- Replacement of any PCB laden lighting ballasts
- Premises in full compliance with fire codes
- Carpet cleaning and replacement as required
- ADA improvements
- All electrical receptacles to be in working order
- Offices to be equipped with new Cat 5/6 wiring; VOIP phones, 24 port Cat 5/6 patch panels, server rack and T-1 internet connection
- Siding replacement and exterior painting

- Wharf (AMHS lay berth) fender piles to be installed

⇒ In comparison to the 1997 study findings, virtually all infrastructure issues associated with suitable office space have been addressed.

Operational / Logistics Issues

Moving the AMHS fleet management to Ketchikan improves operational efficiency and logistical support through:

- Greater proximity of management and professional personnel to vessel operations, maintenance and repair and lay-up activities. This enhances direct communications with fleet personnel and enhances management oversight and support.
- The existing AMHS facilities in Ketchikan contain a staging area, passenger terminal, mainline berth / loading ramp, feeder berth / loading ramp, warehouse building and administration building. This complex borders the State's shipyard and functionally represents an unparalleled logistics and support complex. Positioning AMHS fleet managers in Ketchikan places an emphasis on this complex and promotes maximizing its utilization (as originally intended).
- Ketchikan has a strong marine industrial base, with a wide range of retailers and service providers. This is one of the reasons the State originally selected Ketchikan as its AMHS maintenance facility.
- Positioning AMHS personnel in Ketchikan greatly enhances AMHS utilization of the State-owned shipyard facility.¹⁰
- There are additional opportunities to take advantage of Ketchikan's infrastructure for periodic needs with regard to warehousing and storage.
- The AMHS has already been utilizing dock space in Ward's Cove¹¹ for the winter lay-up of certain vessels. Locating the AMHS administrative offices in Ketchikan puts fleet maintenance and repair managers in direct contact with lay-up personnel and activities.
- The Inter-Island ferry sails out of Ketchikan. Locating AMHS fleet managers in Ketchikan promotes communication and interaction with this operation.

¹⁰ During the 1980's the State spent approximately \$38 million to construct a shipyard facility in Ketchikan. This facility is currently owned by the Alaska Industrial Development and Export Authority and State law requires that repair of State vessels be carried out at the facility unless it is determined that doing so is not in the State's best interest. Over the years there has been systemic (AMHS) resistance to fully utilizing this facility as originally intended by the State. Nonetheless, this facility has proven itself a valuable asset to the State both for routine and emergency repairs. Likewise, most all State funded annual overhaul projects and some federally funded capital projects are conducted at the State's facility.

¹¹ At the same pulp mill site where the KGB office space is located.

⇒ In contrast, the 1997 study reported no operational or logistical benefits to the move.

Need for AMHS Central Office Functions in Juneau

Unlike the scenario in 1997, under the current proposal the Director and support staff will remain in Juneau. Thus, the ability to maintain continuity in day-to-day AMHS related decisions should remain high. Likewise, loss of communication will be minimized. Even for people in the same building, use of e-mail is a routine method of both inter and intra-department communication.

The 1997 study speculated on the possible ill effects of AMHS losing “face time” and in-person connectivity with Southeast Region staff and other state and federal agencies. The current scenario removes any basis for this concern. Again, the Director and support staff will remain in Juneau and facilitate any necessary face-to-face connectivity with other agencies and legislators. Likewise, Reservations, Planning, Finance, Human Resources and Procurement staff will remain in Juneau.

On the other hand, removal of AMHS fleet managers from Juneau will likely prove beneficial. There is no reason to require that these AMHS employees engage in “politics.” Locating professional fleet managers and technical personnel in Ketchikan helps to insulate them from political pressures and related distractions, thereby allowing them to focus on the vital tasks at hand.

⇒ In contrast to the 1997 study findings, concerns about loss of interagency and inter-governmental contact are mitigated. Further, getting professional fleet managers and technical personnel out of Juneau and into the fleet-centered environment is beneficial.

Impact on Employees

Even under the best of circumstances, moves can be disruptive. If the decision to proceed is made, it is incumbent on the State to help facilitate logistics and reduce impacts to employees and their families. The State should allocate sufficient funds to ensure that those agreeing to move to Ketchikan incur no financial burden. In addition, the State could contract with realtors to assist in securing housing arrangements for employees and families.

The opportunity for spouses and other family members to obtain employment in Ketchikan is good, thereby mitigating the loss of second incomes resulting from the move. Because the opportunity for second incomes in Ketchikan is greater than that in Juneau, this could represent an incentive for some families.

The State could work with the City and Borough of Ketchikan to inform and assist families with the move. Adequate time must be allowed for all employees and families to plan and adjust. Therefore, any decision to move should be made and communicated to AMHS personnel as quickly as possible.

It would be ideal if the move were made after the busy summer season.

FINANCIAL

The financial impacts of moving AMHS fleet management personnel to Ketchikan can be grouped as follows:

- One-time cost of move
- Operating costs of the leased facility
- Operational and logistical costs

Each of these is discussed in more detail below.

Cost of the Move

1997

Without question, a move represents upfront costs. In the 1997 study, based on moving 59 employees, associated costs were estimated as follows:

10,000 pounds of personal effects	\$ 3,807 / employee
15 days per diem (employees and families)	\$ 2,254 / employee
Vehicles transportation	\$ 0 (on AMHS)
Employee and Family transportation	\$ 0 (on AMHS)
Office Equipment	\$ 1,695 / employee
Computers and Communications Infrastructure	\$ 847 / employee
TOTAL (in 1997)	\$507,600 (59 employees)

Today

Unlike 1997, today only 34 positions are slated for the proposed move, with other employees remaining in Juneau.

The current staff have not been polled as to how many are willing to move, but the 1997 survey of AMHS personnel reported that "28% of the employees would 'definitely' or 'probably' accept transfer and move to Ketchikan, 41% would 'definitely not' or 'probably not' accept a transfer, and 31% are 'not sure'." Assuming that the offer to move is made to all 34 current "essential" fleet management staff, based on the study, 10 would probably move, 14 would probably not move and 10 are not sure. The study goes on to say that of the number probably not willing to move, 25% are management and 12% are professional. The rest are clerical. Based on this, 21 of the 34 management and professional positions may be willing to move. However, these figures are speculation until affected staff are specifically queried.

As discussed above, it is estimated that 21 employees would be moved. The associated costs are estimated as follows:

10,000 pounds of personal effects	\$ 7,500 / employee
15 days per diem (employees and families)	\$ 4,125 / employee
Vehicles transportation	\$ 0 (on AMHS)
Employee and Family transportation	\$ 0 (on AMHS)
Move Office Equipment	\$ 2,000 / employee
Upgrade of Computers and Communications Infrastructure ¹²	\$ 2,299 / employee
TOTAL (in 2004)	\$344,895 (21 employees)

If all 34 employees deemed essential accept an offer to move, the projected costs would increase to \$522,020.

For the purposes of this discussion, a 15% contingency has been added to the cost to move 21 employees and their families, household goods, office equipment and to provide new IS infrastructure.

⇒ This results in an estimated cost to move of **\$396,629**.

Operating Costs of the Facility

The annual lease cost of the KGB facility is outlined in the discussion section above. A comparison of the costs is provided below:

Table 2. Comparing Juneau and Ketchikan Office Lease Costs

	Juneau	Ketchikan	Savings
Space	6,216 sf	6,216 sf	
Unit Cost	\$ 1.79 / sf	\$ 1.04 / sf*	\$ (.75) / sf
Annual Cost	\$ 133,519	\$ 77,347**	\$ (56,172)
Extended - 10 years	\$1,335,197***	\$773,472***	\$ (561,725)

* The KGB square foot rate is an average taken over a 10-year period. It includes a \$420,000 stepped incentive credit that reduces the quoted base rate of \$1.60 / sf.

** The annual KGB cost is an average taken over a 10-year period (includes incentive).

*** Neither the Juneau nor Ketchikan costs have been adjusted for CPI increases.

⇒ Over a 10-year period, the lease cost savings of locating AMHS fleet management personnel to Ketchikan is **\$561,725**.

Operational and Logistics Costs

Cost savings will be realized by moving the AMHS fleet management functions to Ketchikan. However, any attempt to quantify the amount would be inexact at best. Instead,

¹² The DOT&PF SE Region computer services group developed a proposal that provides for a complete upgrade of AMHS computer and communications infrastructure. These costs remain essentially fixed regardless of how many personnel are moved.

a discussion of the rationale for cost savings is provided along with rough estimates of potential savings.

Lay-up and Overhaul Activities

AMHS direct (in-house) costs for annual lay-up and overhaul activities are substantial. In 2003, AMHS spent over \$4.875 million for personnel services, travel, contractual, commodities and equipment associated with fleet lay-up and overhaul activities. On top of this is the cost of fuel for vessels that transited to the Lower 48, plus the costs for facilities, shipyards and contractors procured to carryout required work.

By focusing on and committing to utilize facilities, services and personnel located in Ketchikan, AMHS can achieve significant cost savings. Estimates on the amount vary, but are likely to range from 5% - 8% (of the total amount spent on in-house aspects of annual lay-up and overhaul activities).

One way to instill a commitment from AMHS to fully maximize infrastructure and capabilities available in Ketchikan, and enjoy associated cost savings, is to locate fleet management and maintenance personnel there.

⇒ A savings of 5% in this area would equal approximately \$240,000 per year. This amount is not being advanced as an absolute, but rather an opportunity for savings.

Travel

Basing AMHS fleet maintenance and engineering personnel in Ketchikan, instead of Juneau, will eliminate this group's travel costs to Ketchikan for annual lay-up and overhaul activities that take place there. In addition, there is an active United States Coast Guard (USCG) Marine Safety Detachment (MSD) located in Ketchikan that handles many AMHS vessel inspections and regulatory activities.

Members of the maintenance and engineering team will still need to travel to Seattle occasionally (just as they would if they remained stationed in Juneau). Airfare from Ketchikan to Seattle is equal or less than from Juneau to Seattle, providing additional savings.

There will be an occasional need for select individuals to travel to Juneau, but this travel is deemed to be insignificant, particularly since the System Director and administrative staff will remain in Juneau and attend to the vast number of legislative and inter-governmental activities.

Over \$238,000 was spent for travel related to the 2003 lay-up and overhaul costs referenced above. An internal AMHS analysis has conclude that travel related savings could be approximately \$39,000 per year.

⇒ Regardless of the exact amount, in contrast to the 1997 study,¹³ AMHS travel costs will go down as a result of moving fleet management personnel to Ketchikan.

Warehousing

Existing AMHS facilities in Ketchikan include a warehouse that supports fleet operations and maintenance activities. Aside from Bellingham, this is the only AMHS warehouse located adjacent to AMHS vessel loading berths.

Efficiencies can be achieved by centralizing AMHS fleet warehousing activities in Ketchikan to the maximum extent possible. Specific attention to inventory control and maintenance parts and supplies management will potentially result in cost savings.

SUMMARY AND CONCLUSIONS

The basis for locating AMHS fleet operations and maintenance managers in Ketchikan proximal to the State's ferry and shipyard facility has long been recognized. Stationed there, these employees would have direct daily contact and interaction with vessel operations, overhaul, lay-up and logistical support of the AMHS fleet and shipboard personnel.

The issue of moving certain AMHS management and administrative functions was last considered in 1997, but at that time it was determined that the concept did not make financial sense. Since then, conditions have changed such that today there are both financial and operational incentives to carry out the relocation of fleet management and maintenance personnel to Ketchikan (while leaving the Director, Reservations, Planning, Finance, Human Resources and Procurement in Juneau).¹⁴

The amount of total potential savings is a matter of conjecture, even if an extensive study were to be commissioned (like the 1997 analysis). However, there is little doubt that real savings can be realized on an annual basis if there is a concerted commitment to achieve them. Given Ketchikan's existing infrastructure and resources, there is a much greater opportunity to realize savings and efficiency there than in Juneau.

Of course moving can be disruptive; predictably, not all of those being considered for the AMHS relocation will be enthusiastic about it. But ultimately, the question is not whether the move is popular; the more appropriate inquiry is whether it enhances the mission of the AMHS (which is safe, reliable and efficient transportation) and makes a greater contribution to the public good.

Conclusions of this discussion paper are:

⇒ Today's space requirements for AMHS are significantly reduced compared to the 1997 study, since only a portion of AMHS personnel would be moved.

¹³ The 1997 analysis estimated an increase in travel expenses of \$71,000.00 per year.

¹⁴ Certain AMHS administrative and support functions are provided by DOT&PF SE Region.

- ⇒ Suitable office space now exists in Ketchikan for AMHS fleet management and maintenance personnel.
- ⇒ There is room for expansion in Ketchikan if necessary.
- ⇒ Virtually all infrastructure issues identified in the 1997 study associated with suitable office space have been addressed.
- ⇒ The per-square foot lease rate for suitable office space in Ketchikan is significantly lower than previously estimated and lower than the lease space currently occupied by AMHS in Juneau.
- ⇒ There are numerous operational and logistical benefits to moving AMHS fleet management and maintenance personnel to Ketchikan.
- ⇒ Getting professional fleet managers and technical personnel out of Juneau and into the fleet-centered environment in Ketchikan is beneficial.
- ⇒ Concerns about loss of interagency and inter-governmental contact are mitigated.
- ⇒ The estimated cost to move 21 AMHS personnel is \$396,629 (including a 15% contingency).
- ⇒ Over a 10-year period, the lease cost savings of locating AMHS fleet management personnel in Ketchikan, compared to staying in Juneau, is \$561,725.
- ⇒ The sunk cost of moving AMHS fleet managers to Ketchikan is more than offset by lower annual lease costs during the lease period.
- ⇒ Additional operational and logistical savings are achievable by moving fleet management functions to Ketchikan. With committed effort, these potential savings are estimated at approximately \$240,000 per year.

As outlined throughout this document, there is merit in relocating AMHS fleet management and engineering staff to Ketchikan.¹⁵

NEXT STEP

It is recommended that an in-house (DOT&PF) project team with a designated project lead be established to advance this issue. The team should have representatives from various disciplines such as Procurement, Administrative Services and Operations. This team should be given approximately 30 days to develop a detailed plan (including scope, schedule and budget) for the proposed move. The team should submit its plan along with a presentation to the Commissioner and Deputy Commissioner (AMHS System Director) of the DOT&PF.

¹⁵ Information used in this discussion paper was provided by DOT&PF.